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CITY OF ECORSE, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2003

CITY OF ECORSE, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2003

TABLE OF CONTENTS

	<u>Page</u>
Report of Independent Auditors	1
Management's Discussion and Analysis (unaudited)	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balances	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - General Fund	15
Proprietary Funds:	
Statement of Net Assets	16
Statement of Revenues, Expenses and Changes in Fund Net Assets	17
Statement of Cash Flows	18
Fiduciary Funds:	
Statement of Net Assets	20
Statement of Changes in Net Assets - Pension Trust Fund	21
Notes to Basic Financial Statements	22
Required Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Combining Financial Statements - Non-major Governmental Funds:	
Combining Balance Sheet	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	41

CITY OF ECORSE, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2003

TABLE OF CONTENTS - CONTINUED

	<u>Page</u>
Schedules of Revenues, Expenditures and Changes in Fund Balances -	
Budget to Actual	
Major Street Fund	42
Local Street Fund	43
Drug Enforcement Fund	44
Library Fund	45
Community Development Block Grant Fund	46
Fiscal Stabilization Bond Fund	47
Combining Statement of Net Assets - Fiduciary Funds	48
Supplementary Individual Fund Financial Statements and Schedules -	
General Fund:	
Statement of Revenues, Expenditures and Changes in Fund Balance -	
Budget to Actual	49
Schedule of Revenues - Budget to Actual	50
Schedule of Expenditures - Budget to Actual	51
Required Supplementary Information:	
Schedule of Funding Progress - Pension Plans	56

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February 24, 2004

Local Audit and Finance Division
Department of Treasury
State of Michigan
430 W. Allegan Street, 4th Floor
Lansing, Michigan 48922

Re: City of Ecorse, Michigan

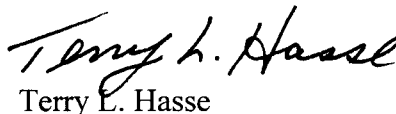
To whom it may concern:

Enclosed are two copies of the annual financial statements for the City of Ecorse, Michigan as of and for the fiscal year ended June 30, 2003. Our auditors' report describing the scope of our audit is included with the financial statements.

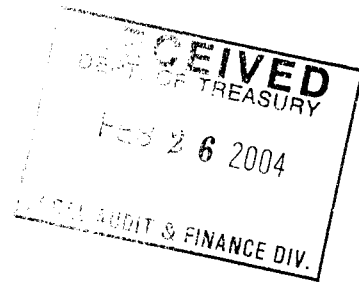
We are also enclosing two copies of the management comment and recommendation letter, issued in conjunction with our audit. Further enclosed is Department of Treasury Form 496, "Auditing Procedures Report."

If you have any questions regarding the enclosures, please contact us at (248) 645-5370.

Very truly yours,



Terry L. Hasse
Director, Assurance and Accounting
Martin, Arrington & Hasse, P.C.
Certified Public Accountants



REPORT OF INDEPENDENT AUDITORS

December 16, 2003

City Council
City of Ecorse, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, major funds, and remaining fund information of the City of Ecorse, Michigan (the "City") as of and for the year ended June 30, 2003, which comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis of our opinion.

The financial statements referred to above include only the primary government of the City of Ecorse, Michigan, which consists of all funds, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Ecorse, Michigan as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-

type activities, each major fund, and the aggregate remaining fund information for the primary government of the City of Ecorse, Michigan as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the

year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as of June 30, 2003.

The management’s discussion and analysis and budgetary comparison information on pages 3-8, and pages 40-56 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City’s primary government. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Martin, Arrington & Hasse, P.C.
Martin, Arrington & Hasse, P.C.
Certified Public Accountants

Overview of the Financial Statements

The 2003 annual financial report of the City of Ecorse follows a different format than in previous years. This annual report has been changed to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

- Government activities – Most of the City's basic services are included here, such as the police, fire, public works and recreation departments and general administration. Property taxes, State-shared revenue, charges for services, grants, and transfers provide much of the funding.
- Business-type activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer systems, are included here.
- Component units – The City, does not include the Ecorse Housing Commission in its report. The Housing Commission financial statements were not available.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

City of Ecorse, Michigan

Management's Discussion and Analysis (Continued)

The City has three kinds of funds:

- Government funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- Proprietary funds – Services to which the City charges customer's a fee are generally reported in proprietary funds. Proprietary fund reporting, like government-wide statements, provide both short and long-term financial information.
- Fiduciary funds – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Highlights

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$15,030,533(net assets), an increase of \$1,266,469 from the previous year. Of the \$15,030,533 reported in net assets, approximately \$6.8 million may be used to meet the ongoing obligations to citizens and creditors(unrestricted net assets).
- Net assets of our governmental activities decreased \$917,602, or 48% while net assets of our business-type activities increased \$2,994,196 or 18%.
- Unrestricted net assets for governmental activities are -11.62% of expenses. Unrestricted net assets for business-type activities are 209.7%.
- The General Fund reported expenditures in excess of revenues of \$475,513, which decrease the Fund balance. However due to the \$6 million loan the general fund balance has a surplus of \$4,142,509.

The City as a Whole

The City's combined net assets are \$15,030,533 at June 30,2003. Business type activities make up \$14,025,264 and governmental activities make up \$1,005,269 of the total. Future reports will provide an analysis of comparative data from the statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative condensed statement of activities is not part of the management's discussion and analysis. In a condensed format, the table below shows a comparison of the net assets as of June 30, 2003 to the prior year.

Management's Discussion and Analysis (Continued)

City of Ecorse – Net Assets

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$15 million (net assets). However, a major portion (43%) of the City's net assets represents its investment in capital assets (e.g. land, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for future spending. The City has elected to retroactively report infrastructure assets as allowed by GASB 34.

Unrestricted net assets of the City decreased from \$7.1 million at June 30, 2002 to \$6.8 million at the end of this year. This amount represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Further, the City is able to report positive balances in all three categories of net assets, for the government as a whole. A deficit is reported for unrestricted funds in Governmental Activities.

City of Ecorse – Net Assets (in millions of dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Assets						
Current & Other Asset	6.2	1.4	10.4	7.9	16.6	9.3
Capital Assets	2.1	2.2	13.0	13.5	15.1	15.7
Total assets	8.3	3.6	23.4	21.4	31.7	25.0
Liabilities						
Long-term liabilities	6.3	.3	8.1	9.2	14.4	9.5
Other liabilities	1.0	2.5	1.5	.4	2.5	2.9
Total liabilities	7.3	2.8	9.6	9.6	16.9	12.4
Net Assets						
Invested in capital assets-						
Net of related debt	2.1	1.9	4.3	2.3	6.4	4.2
Restricted	.3	.0	1.3	1.3	1.6	1.3
Unrestricted	(1.4)	(1.1)	8.2	8.2	6.8	7.1
Total net assets	1.0	.8	13.8	11.8	14.8	12.6

City of Ecorse, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets for 2003:

City of Ecorse – Changes in Net assets (in millions of dollars)

	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues:			
Charges for service	\$ 1.20	5.22	6.42
Grants	.37		.37
General revenues:			
Property taxes	6.65	.75	7.40
State-shared revenues	2.70		2.70
Other revenues	.18	.28	.46
Total revenues	11.10	6.25	17.35
Expenses			
General government	4.29		4.29
Judicial	.43		.43
Public safety	5.69		5.69
Public works	1.39		1.39
Recreational/cultural	.19		.19
Interest on long-term debt	.14		.14
Water and sewer		3.96	3.96
Total expenses	12.13	3.96	16.09
Excess(deficiency) before transfers and Other financing sources	(1.03)	2.29	1.26
Transfers	.11	(.11)	- 0 -
Changes in net assets	(.92)	2.18	1.26
Nets assets June 30,2002	1.92	11.84	13.76
Nets assets June 30,2003	\$ 1.00	14.02	15.02

City of Ecorse, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

For the year ended June 30, 2003, revenues for the City's governmental activities totaled \$11.23 million. Property taxes accounted for 59% of total revenue or \$6.6 million. State shared revenues were 24%, or \$2.7 million. There is concern for the future funding level of the state-shared revenues. It should be noted that the city's largest tax payer only paid a portion of the property taxes due because of bankruptcy. This resulted in an operating deficit. However, the general fund ended with a surplus due to the city issuing \$6 million in Fiscal Stabilization Bonds.

Business-type Activities

For the year ended June 30, 2003; revenues for business-type activities were \$6.14 million (net .11 million of transfers). Charges for services were 84% of gross revenue, or \$5.2 million. Property taxes were 12% of gross revenues, or \$.7 million; these property taxes are used to make payments on debt incurred for the sewer system improvements. The City has one business-type activity; the water and sewer system. City experienced an increase in net assets of approximately \$2.18 million from the business-type activities. This increase is due to the fact that in Y.E. 6-30-02, the city's largest business did not pay a large portion of its water bill. However, all the water bills were paid in Y.E. 6-30-03.

Capital Assets and Debt Administration

At the end of fiscal year 2003, the City has \$14.7 million in bonds versus \$9.2 million last year, an increase of 65%.

During the Fiscal year 2003, the City issued \$6 million in Fiscal Stabilization Bonds.

Debt related to the water and sewer system totaling \$8.7 million is recorded as a liability in the business-type activities in the statement of net assets. This debt represents improvements at the Wayne County Wastewater Treatment Plant that were mandated by a federal consent decree.

The City's Funds

The fund financial statements begin on page 11 and provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities such as special property tax mileages. The City's major governmental funds for 2003 include the General Fund, the Major and Local Street Funds, Drug Enforcement Fund, Library Fund, Community Block Grant Fund and The Debt Service Fund. The City's governmental funds reported combined fund balance of \$5.4 million for this year, an increase of \$5.4 million over last year which had a \$10,000 deficit. The general fund increased because of the \$6 million bond which eliminated a \$1.1 million deficit in the general fund from the prior year. The debt service fund was new for this fiscal year and resulted in a \$300,000 surplus. The other funds remain practically the same from prior year.

General Fund Budgetary Highlights

The budget was not revised during the fiscal year. Actual expenses exceed the budget by \$845,849. The increase was due to the spending from the \$6 million loan which was not in original budget. If city had revised the budget during the fiscal year the actual would not have exceeded the revised budget.

City of Ecorse, Michigan

Management's Discussion and Analysis (Continued)

Current Economic Conditions

The City will maintain positive fund balances in the future. Although it is anticipated that the State – shared Revenue will decrease in the future, this will not result in the city having a deficit fund balance. The city has selected a new engineering firm that will result in a saving of at least \$300,000. In addition the city has taken steps to reduce overtime in fire and police. These steps include hiring part-time policemen and firemen. The city also ties the traffic patrol overtime to the revenue produced by these patrols.

The city will also settle the police contract negotiations, with the resulting economic impact being incorporated in a revised budget.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Controller at 3869 Jefferson, Ecorse, Michigan.

CITY OF ECORSE, MICHIGAN

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

JUNE 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,818,871	\$ 5,504,135	\$ 11,323,006
Receivables, net	468,580	2,378,034	2,846,614
Receivables from other governments	742,816		742,816
Due (to) from other funds	(1,240,191)	1,240,191	
Prepaid expenses	251,204		251,204
Restricted assets:			
Cash and cash equivalents	175,326	1,381,188	1,556,514
Capital assets:			
Land	96,000	15,000	111,000
Buildings, improvements and sewage system	7,092,200	17,550,703	24,642,903
Vehicles, equipment and furniture	1,590,416	727,846	2,318,262
Accumulated depreciation	(6,662,590)	(5,218,124)	(11,880,714)
Total assets	<u>8,332,632</u>	<u>23,578,973</u>	<u>31,911,605</u>
LIABILITIES			
Accounts payable	583,904	826,470	1,410,374
Accrued wages and benefits	143,317	989	144,306
Other accrued liabilities	38,554		38,554
Non-current liabilities			
Due within one year	220,000	577,477	797,477
Due in more than one year	6,341,588	8,148,773	14,490,361
Total liabilities	<u>7,327,363</u>	<u>9,553,709</u>	<u>16,881,072</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,116,026	4,349,175	6,465,201
Restricted for debt service	300,227	1,381,188	1,681,415
Unrestricted	(1,410,984)	8,294,901	6,883,917
Total net assets	<u>\$ 1,005,269</u>	<u>\$ 14,025,264</u>	<u>\$ 15,030,533</u>

See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2003

Program Activities	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government and administration	\$ 4,286,660	\$ 1,161,980	\$	\$ (3,124,680)	\$	\$ (3,124,680)
Judicial	430,235		45,724	(384,511)		(384,511)
Public safety	5,687,046	50,037	11,596	(5,625,413)		(5,625,413)
Public works	1,393,347		278,747	(1,114,600)		(1,114,600)
Recreational/cultural	191,606		34,522	(157,084)		(157,084)
Other	6,636			(6,636)		(6,636)
Interest on long-term debt	154,215			(154,215)		(154,215)
Total governmental activities	12,149,745	1,212,017	370,589	(10,567,139)		(10,567,139)
Business-type activities:						
Water and sewer	3,955,589	5,215,073			1,259,484	1,259,484
Total government	<u>\$ 16,105,334</u>	<u>\$ 6,427,090</u>	<u>\$ 370,589</u>	<u>\$ (10,567,139)</u>	<u>\$ 1,259,484</u>	<u>\$ (9,307,655)</u>
General Revenues						
Property taxes				6,658,241	755,612	7,413,853
State-shared revenue				2,680,400		2,680,400
Interest income				22,785	98,870	121,655
Miscellaneous				174,766	183,450	358,216
Transfers				113,345	(113,345)	-
Total general revenues and transfers				9,649,537	924,587	10,574,124
Change in net assets				(917,602)	2,184,071	1,266,469
Net assets, July 1, 2002				1,922,871	11,841,193	13,764,064
Net assets, June 30, 2003				\$ 1,005,269	\$ 14,025,264	\$ 15,030,533

See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2003

	General	Debt Service	Non-major Special Revenue Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 5,175,597	\$ 175,326	\$ 643,274	\$ 5,994,197
Receivables - net	468,580			468,580
Due from other governments	302,694		440,122	742,816
Due (to) from other funds	(1,264,114)		23,923	(1,240,191)
Prepaid expenses	87,749	163,455		251,204
Total assets	<u>\$ 4,770,506</u>	<u>\$ 338,781</u>	<u>\$ 1,107,319</u>	<u>\$ 6,216,606</u>
Liabilities				
Accounts payable	\$ 484,959	\$	\$ 98,945	\$ 583,904
Accrued wages and benefits	143,038		278	143,316
Accrued interest		38,554		38,554
Total liabilities	<u>627,997</u>	<u>38,554</u>	<u>99,223</u>	<u>765,774</u>
Fund Balances				
Restricted for debt service		300,227		300,227
Unrestricted	4,142,509		1,008,096	5,150,605
Total fund balances	<u>4,142,509</u>	<u>300,227</u>	<u>1,008,096</u>	<u>5,450,832</u>
Total Liabilities and fund balances	<u>\$ 4,770,506</u>	<u>\$ 338,781</u>	<u>\$ 1,107,319</u>	<u>\$ 6,216,606</u>

See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2003

Total fund balance - total governmental funds	\$ 5,450,831
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	2,116,026
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Long term liabilities are not due and payable in the current period and, therefore, they are not reported in the in the governmental funds balance sheet	(6,561,588)
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Net assets of governmental activities	<u>\$ 1,005,269</u>
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See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2003

	General	Debt Service	Non-major Special Revenue Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 6,594,278	\$	\$ 63,963	\$ 6,658,241
State shared revenues	2,089,748		590,652	2,680,400
Grants	82,033		288,556	370,589
Licenses and permits	207,844			207,844
Fees and charges	946,886		50,037	996,923
Other revenues	162,572	157	19,444	182,173
Interest income	21,707		921	22,628
Total revenues	10,105,068	157	1,013,573	11,118,798
Expenditures				
General government	\$ 4,165,501	\$	\$	\$ 4,165,501
Judicial	428,139			428,139
Public safety	5,314,637		151,932	5,466,569
Public works	605,567		787,779	1,393,346
Recreational/cultural	66,737		90,119	156,856
Other		6,636		6,636
Debt service - interest paid	154,215	154,215		154,215
Total expenditures	10,580,581	160,851	1,029,830	11,771,262
Revenues over (under) expenditures	(475,513)	(160,694)	(16,257)	(652,464)
Other financing sources (uses)				
Net proceeds from fiscal stabilization bond	6,000,000			6,000,000
Transfers to debt service fund	(460,921)	460,921		
Transfers in (out) for administration	81,165		(81,165)	
Transfers in for administration from proprietary fund	113,345			113,345
Total other financing sources (uses)	5,733,589	460,921	(81,165)	6,113,345
Revenues over (under) expenditures and other financing sources (uses)	5,258,076	300,227	(97,422)	5,460,881
Fund balances, July 1, 2002	(1,115,567)		1,105,518	(10,049)
Fund balances, June 30, 2003	\$ 4,142,509	\$ 300,227	\$ 1,008,096	\$ 5,450,832

See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds \$ 5,460,881

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures,
however, in the government-wide statement of activities and
changes in net assets, the cost of those assets is allocated
over their estimated useful lives as depreciation expense.
This is the amount of capital assets recorded in the current period 184,796

Depreciation expense on capital assets is reported in the
government-wide statement of activities and changes in net
assets, but they do not require the use of current financial
resources. Therefore, depreciation expense is not reported as
an expenditure in governmental funds (342,331)

The issuance of long-term debt provides current financial
resources to governmental funds, while the repayment of the
principal of long-term debt consumes the current financial
resources of governmental funds. Neither transaction,
however, has any effect on net assets. Also, governmental
funds report the effect of issuance cost when first issued,
whereas the amounts are deferred and amortized in the
statement of activities. This amount is the net effect of
these differences in the treatment of long-term debt and
related items (6,220,948)

Changes in net assets of governmental activities \$ (917,602)

See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GENERAL FUND

BUDGET TO ACTUAL

YEAR ENDED JUNE 30, 2003

	Budgeted Amounts Original and Final	Actual GAAP Basis	Budget Variance Positive (Negative)
Revenues			
Property taxes	\$ 6,291,725	\$ 6,594,278	\$ 302,553
State shared revenues	2,427,725	2,089,748	(337,977)
Grants	119,900	82,033	(37,867)
Licenses and permits	283,685	207,844	(75,841)
Fees and charges	762,840	946,886	184,046
Other revenues	190,300	162,572	(27,728)
Interest income	125,000	21,707	(103,293)
Total revenues	10,201,175	10,105,068	(96,107)
Expenditures			
General government	\$ 3,887,213	\$ 4,083,545	\$ (196,332)
Judicial	336,737	428,139	(91,402)
Public safety	5,111,102	5,525,637	(414,535)
Public works	209,000	341,139	(132,139)
Recreational/cultural	63,680	66,738	(3,058)
Capital outlays	127,000	135,383	(8,383)
Total expenditures	9,734,732	10,580,581	(845,849)
Revenues over (under) expenditures	466,443	(475,513)	(941,956)
Other financing sources (uses)			
Net proceeds from fiscal stabilization bond		6,000,000	6,000,000
Transfers to debt service fund		(460,921)	(460,921)
Transfers in (out) for administration		81,165	81,165
Transfers in for administration from proprietary fund		113,345	113,345
Total other financing sources (uses)		5,733,589	5,733,589
Revenues over (under) expenditures and other financing sources (uses)	466,443	5,258,076	4,791,633
Fund balances, July 1, 2002	(1,802,756)	(1,115,567)	687,189
Fund balances, June 30, 2003	<u>\$ (1,336,313)</u>	<u>\$ 4,142,509</u>	<u>\$ 5,478,822</u>

Budgeted amounts are prepared on a GAAP basis

See accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUND - WATER AND SEWER FUND
JUNE 30, 2003**

Assets

Current Assets:

Cash	\$ 5,504,135
Accounts receivable-trade, net of allowance for doubtful accounts	2,378,034
Due from other funds	<u>1,265,564</u>
Total Current Assets	<u>9,147,733</u>

Restricted Assets:

Cash	<u>1,381,188</u>
------	------------------

Noncurrent Assets:

Capital Assets:

Land	15,000
Building and improvements	17,550,703
Machinery and equipment	727,846
Accumulated depreciation	<u>(5,218,124)</u>

Total Capital Assets, net of Accumulated Depreciation	<u>13,075,425</u>
--	--------------------------

Total Assets	<u>\$ 23,604,346</u>
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Liabilities

Current Liabilities:

Accounts payable	\$ 826,470
Accrued wages and benefits	989
Due to other funds	25,373
Current maturities of long term debt	<u>577,477</u>

Total Current Liabilities	1,430,309
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Noncurrent Liabilities:

Long-term debt, net of current maturities	<u>8,148,773</u>
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Total Liabilities	9,579,082
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Net Assets

Invested in capital assets, net of related debt	4,349,175
Restricted for debt service	1,381,188
Unrestricted	<u>8,294,901</u>
Total Net Assets	<u>\$ 14,025,264</u>

See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2003

Operating Revenues:	
Water charges	\$ 2,394,374
Sewer charges	2,711,171
Miscellaneous charges	<u>109,528</u>
Total operating revenues	<u>5,215,073</u>
Operating Expenses:	
Water cost	591,631
Sewer cost	1,570,168
Salaries, payroll taxes and employee benefits	51,005
Supplies, maintenance and utilities	993,184
Other expenses	62,250
Depreciation	<u>487,470</u>
Total operating expenses	<u>3,755,708</u>
Income from operations	<u>1,459,365</u>
Nonoperating revenues (expenses)	
Interest income	98,870
Sale of excess capacity	183,450
Property taxes	755,612
Interest expense	<u>(199,881)</u>
Total nonoperating revenues (expenses)	<u>838,051</u>
Income before transfers	2,297,416
Transfers to general fund for administration	<u>(113,345)</u>
Change in net assets	2,184,071
Net assets, July 1, 2002	<u>11,841,193</u>
Net assets, June 30, 2003	<u><u>\$ 14,025,264</u></u>

See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - WATER AND SEWER FUND

YEAR ENDED JUNE 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 4,767,450
Cash payments to suppliers for goods and services	(2,733,746)
Cash payments to employees for services	<u>(27,872)</u>
Net cash provided by operating activities	2,005,832

CASH FLOWS FROM NON-CAPITAL FINANCIAL ACTIVITIES:

Repayment of amounts due to/from other funds - net	260,056
Transfers to primary government for administration and other	<u>(113,345)</u>
Net cash provided by non-capital financial activities	146,711

**CASH FLOWS FROM CAPITAL
AND RELATED FINANCING ACTIVITIES:**

Acquisition of capital assets	(21,654)
Cash received from sale of excess sewer capacity	183,450
Cash received from tax levies	755,612
Principal paid on long-term obligations	(563,351)
Interest paid on long-term obligations	<u>(199,881)</u>
Net cash provided by capital and related financing activities	154,176

**CASH FLOWS FROM
INVESTING ACTIVITIES:**

Decrease in reserve funds at Wayne County	82,877
Investment income	<u>98,870</u>
Net cash provided by investing activities	<u>181,747</u>
Increase in cash and cash equivalents	2,488,466

CASH AND CASH EQUIVALENTS AT JULY 1, 2002	<u>3,015,669</u>
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CASH AND CASH EQUIVALENTS AT JUNE 30, 2003	<u>\$ 5,504,135</u>
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See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2003

RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:

Operating income	\$ 1,459,365
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	487,470
Changes in current assets and liabilities:	
(Increase) in accounts receivable - trade	(447,623)
Increase in accounts payable	506,510
Increase in accrued wages and benefits	<u>110</u>
Total adjustments	<u>546,467</u>
Net cash provided by operating activities	<u><u>\$ 2,005,832</u></u>

See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN

STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

JUNE 30, 2003

	Police and Fire Pension Trust	Agency Funds
Assets:		
Cash	\$	\$ 267,359
Investments	8,123,897	
Due from other governmental units		1,469,070
Total Assets	<u>\$ 8,123,897</u>	<u>\$ 1,736,429</u>
Liabilities:		
Due to other governmental units	\$	\$ 1,505,608
Refundable court bonds		100,520
Deposits		43,148
Other liabilities		87,153
Total Liabilities		<u>\$ 1,736,429</u>
Net Assets		
Reserved for pension benefits	<u>\$ 8,123,897</u>	

See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN

STATEMENT OF CHANGES IN NET ASSETS - PENSION TRUST FUND

YEAR ENDED JUNE 30, 2003

ADDITIONS

Interest and dividends	\$ 250,545
Net depreciation in market value of investments	(111,031)
Investment expenses	<u>(96,770)</u>
Net investment income	42,744
Contributions from employer	<u>1,179,651</u>
Total additions	<u>1,222,395</u>

DEDUCTIONS

Benefit payments	1,073,161
Lump-sum distributions	<u>47,116</u>
Total deductions	<u>1,120,277</u>

NET INCREASE 102,118

NET ASSETS HELD IN TRUST FOR
PENSION BENEFITS:

Balance at July 1, 2002	<u>8,021,779</u>
Balance at June 30, 2003	<u><u>\$ 8,123,897</u></u>

See accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ecorse, Michigan, a municipal corporation organized under the laws of the State of Michigan, was incorporated in September 1941. The City has operated under a Mayor-Council form of government and provides the following services as authorized by its Charter: general government, public safety, public works, recreational and cultural, water and sewer services, community development, justice and other.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise fund, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant changes in the Statement include the following:

For the first time financial statements include:

- A Management and Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities, including capital assets.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City has elected to implement the general provisions of the Statement in the current year and plans to retroactively report infrastructure (assets acquired prior to July 1, 2002 in the fiscal year ending June 30, 2006).

A. Reporting Entity

These financial statements present the City (the primary government). A component unit of the City, the Ecorse Housing Commission, is not included in these statements as required by GASB No. 14. Component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Basic Financial Statements-Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, recreation, public works, library and general administrative activities are classified as governmental activities. The City's water and sewer activities are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts-invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes unrestricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (property taxes, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating grants. Program revenues must be directly associated with the function (police, public works, community services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary grants.

The City does not allocate indirect costs. An administrative service fee is charged by the General Fund to the Water Fund, the Major Street Fund, the Local Street Fund and the Community Development Block Grant Fund. These charges are eliminated as reimbursements to recover indirect costs of the General Fund to the other funds.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

C. Basic Financial Statements - Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The following fund types are used by the City:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

- a. **General fund** is the general operating account fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. **Special revenue funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

2. Proprietary Fund:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Water and Sewer Fund is the only fund in the City that meets those requirements. This type of fund is also known as an Enterprise Fund. Enterprises Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

3. Fiduciary Funds:

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. FASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the propriety and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principle and interest on general obligation long-term debt, if any, is recognized when due.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Financial Statement Amounts

1. Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments, including pension funds, are stated at fair value, (quoted market price or best available estimate.).

3. Capital Assets:

Capital assets purchased or acquired with an original cost of \$2,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings & Improvements	25-40 Years
Land Improvements	10-20 Years
Machinery & Equipment	5-10 Years
Vehicles	5-10 Years
Utility Systems	25-40 Years
Infrastructure	20-40 Years

GASBS No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2006. The City has elected to implement the general provisions of GASBS No. 34

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

in the current year and hopes to implement the retroactive infrastructure provisions (under the modified approach) in the fiscal year ending June 30, 2006.

4. Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are billed in a period prior to the period collected. Revenue is recognized for the period collected. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASBS No. 34 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

5. Expenditures:

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

6. Compensated Absences:

The City accrues accumulated unpaid vacation and sick leave when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

7. Interfund Activity:

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market value or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

8. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

9. Revenue Concentration

The Great Lakes Steel division of National Steel Corporation provides approximately 50% of the property tax revenue collected by the City. In addition, approximately 54% of the revenues of the Water and Sewer fund are derived from sales to the steel company. National Steel Corporation filed for bankruptcy court protection, under Chapter 11, in March 2002. Other steel companies have made preliminary offers to acquire the assets and operations of this division. The continued operation of the steel company in the City remains uncertain.

NOTE 2 - BUDGET REQUIREMENTS, ACCOUNTING AND REPORTING

The general government and special revenue funds are under formal budgetary control. In establishing the budgetary data reflected in the financial statements, the City charter requires the following procedures:

1. By February 1 of each year, department heads submit a listing of proposed expenditures to the controller. The controller then prepares a proposed budget for the fiscal year commencing on July 1, and submits it to the city council. The annual operating budget includes all proposed expenditures and the financing sources which will pay for them.
2. Budgets are prepared on the modified accrual basis, which is the same basis used to reflect actual results.
3. Public hearings to obtain citizen comments are conducted.
4. The budgets are to be adopted by majority vote of the City Council by April 1.
5. Any revisions to the budget must be approved by majority vote of the City Council.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

**NOTE 2 - BUDGET REQUIREMENTS, ACCOUNTING AND REPORTING -
CONTINUED**

The budget for the general fund was adopted on April 30, 2002. Budgets for special revenue funds were adopted on June 25, 2002. There were no subsequent adjustments, amendments or revisions to those adopted budgets.

NOTE 3 - CASH AND INVESTMENTS

The City follows the practice of pooling cash and investment accounts for most funds. Cash, investments, and certificates of deposit for the proprietary fund are segregated. Investments of the Police and Fire Pension fund are held by outside trustees. Cash deposits are collateralized only to the extent of FDIC coverage.

The City's investment policies are governed by state statutes. General City funds must be deposited in government insured accounts in Michigan banks or thrifts. Permissible investments include obligations of the U.S. government and its agencies (either individually or in pooled funds), domestic certificates of deposit, commercial paper with prescribed ratings and repurchase agreements. The term of investments and the financial institutions used for investment purposes are determined based upon operating and other needs. As a matter of City policy, repurchase agreements are not used for investments.

The aggregate cash balances, including restricted cash, at June 30, 2003 have been classified in the following two categories of risk:

	<u>Bank Balances</u>	<u>Book Balances</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured-uncollateralized	<u>11,588,317</u>	<u>11,441,480</u>
Total cash at June 30, 2003	<u>\$ 11,688,317</u>	<u>\$ 11,541,480</u>

Investments made by the City's Police and Fire Pension plan are all considered as category 3 - uninsured and unregistered, with securities held by a bank's trust department, and not in the City's name, as follows:

	<u>Cost</u>	<u>Market Value</u>
Money market	\$ 973,220	\$ 973,220
Domestic common stock	4,096,528	4,001,390
U.S. government securities	3,038,310	3,133,035
Accrued interest	<u>16,252</u>	<u>16,252</u>
Total	<u>\$ 8,124,310</u>	<u>\$ 8,123,897</u>

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 4 - PROPERTY TAXES

The City's property tax is levied each June 1, on the assessed valuation as of December 31 of the preceding year, of property located within the City. Property taxes are for the next fiscal year commencing on July 1. Property taxes are payable without penalty up to each July 31. Assessed values are established annually by the City and are equalized by the Charter County of Wayne and the State of Michigan, subject to certain statutory limits.

The major portion of the City's tax revenue is generated from the summer tax levy and is recognized as revenue in the year received. Real and personal property in the City for the fiscal 2003 levy were equalized at \$247 million. The City's operating tax rates for the June 1, 2002 levy (2003 revenue), along with the related restrictions for its use, follows:

	<u>Operating</u> (in mills)	<u>State Limit</u> (in mills)
General operating	19.00	
Police and Fire pension	.25	
Longevity	.50*	
Library	<u>.25</u>	
	<u>20.00</u>	<u>20.00</u>
 Rubbish collection	 <u>2.30</u>	

* The Citizens of the City approved a resolution stating that the excess of property tax revenue over the required longevity payments will be used for library operations. In 2003, \$34,327 was used for library operations, which arose from that excess.

In addition to the above property tax millage rates, the City assesses sufficient mills to generate \$1.1 million in additional property taxes for the purpose of paying the judgement levy for funding the Police and Fire Pension Plan contribution. The assessment is divided between the summer and winter tax billings. In the 2003 fiscal year, the City collected approximately \$964,000 for the Police and Fire Pension Plan.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 5 - INTERFUND TRANSACTIONS AND BALANCES

Interfund transfers during the year ended June 30, 2003, were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Local Streets Fund</u>	<u>Debt Service Fund</u>	
Major Street Fund	\$ 43,095	\$ 107,737	\$	\$ 150,832
Local Street Fund	15,970			15,970
Community Development Block Grant Fund	22,100			22,100
Water and Sewer Fund	113,345			113,345
General Fund			460,921	460,921
Total	<u>\$ 194,510</u>	<u>\$ 107,737</u>	<u>\$ 460,921</u>	<u>\$ 763,168</u>

Transfers were made for the following purposes:

- To move funds from special revenue funds and the proprietary fund to the general fund to allocate administrative costs (primarily personnel costs) to those funds.
- To reallocate available state revenues between the major and local street funds as allowed by State laws.
- To transfer funds from the general fund for debt service requirements

Other fund transactions consisted of the collection of property taxes and delinquent water and sewer charges within the current tax collection fund and the subsequent payments for those items to the appropriate fund and the occasional payment made from one fund's cash account for the benefit of another fund.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 5 - INTERFUND TRANSACTIONS AND BALANCES - CONTINUED

Interfund balances at June 30, 2003, were as follows:

	<u>Receivables</u>	<u>Payables</u>
General fund:		
Current tax collection fund	\$ 4,199,431	\$
District Court trust fund	13,871	
Drug forfeiture fund		14,187
Water and sewer fund		139,373
Major streets fund:		
Water and sewer fund	25,373	
Local streets fund:		
Water and sewer fund		2,614
Drug forfeiture fund:		
General fund	14,187	
Current tax collection fund		5,005
Library fund:		
Current tax collection fund	3,602	
Community Development Block grant fund:		
Water and sewer fund		11,620
Water and sewer funds:		
Current tax collection fund	1,111,957	
General fund	139,373	
Major street fund		25,373
Local street fund	2,614	
Community Devel. Block grant fund	11,620	
Current tax collection fund:		
General fund		4,199,431
Drug forfeiture fund	5,005	
Library fund		3,602
Water and sewer fund		1,111,957
District Court Trust fund:		
General fund		13,871
	<hr/>	<hr/>
Totals	\$ 5,527,033	\$ 5,527,033

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, was as follows:

	<u>Balance</u> <u>6/30/02</u>	<u>Additions</u> <u>7/1/02 to 6/30/03</u>	<u>Balance</u> <u>6/30/03</u>
Governmental activities:			
Capital assets not being depreciated:			
Land	\$ 96,000		\$ 96,000
Capital assets being depreciated:			
Buildings	7,092,200	7,092,200	
Vehicles	804,656	43,578	848,234
Equipment	516,138	141,218	657,356
Furniture and fixtures	84,826		84,826
Total capital assets being depreciated	<u>8,497,820</u>	<u>84,796</u>	<u>8,682,616</u>
Less accumulated depreciation for:			
Buildings	5,617,292	177,308	5,794,600
Vehicles	416,306	72,160	488,466
Equipment	230,056	85,202	315,258
Furniture and fixtures	56,605	7,661	64,266
Total depreciation	<u>6,320,259</u>	<u>342,331</u>	<u>6,662,590</u>
Total capital assets, being depreciated, net	<u>2,177,561</u>	<u>(157,535)</u>	<u>2,020,026</u>
Government activities capital assets, net	<u>\$ 2,273,561</u>	<u>\$ (157,535)</u>	<u>\$ 2,116,026</u>
Business-type activities:			
Capital assets not being depreciated:			
Land	\$ 15,000		\$ 15,000
Capital assets being depreciated			
Buildings, improvements, and sewage system	17,550,703		17,550,703
Machinery and equipment	706,192	21,654	727,846
Total capital assets being depreciated	<u>18,256,895</u>	<u>21,654</u>	<u>18,278,549</u>
Less accumulated depreciation for:			
Buildings, improvements and sewerage system	4,167,159	431,502	4,598,661
Machinery and equipment	563,495	55,968	619,463
Total accumulated depreciation	<u>4,730,654</u>	<u>487,470</u>	<u>5,218,124</u>
Total capital assets being depreciated, net	<u>13,526,241</u>	<u>(465,816)</u>	<u>13,060,425</u>
Business-type activities capital assets, net	<u>\$13,541,241</u>	<u>\$ (465,816)</u>	<u>\$ 13,075,425</u>

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS - CONTINUED

Depreciation expense was charged as a direct expense to programs of the primary government, as follows:

Governmental Activities:

General government and administration	\$ 93,718
Public safety	213,864
Cultural and recreational	34,749
Total depreciation expense - governmental activities	<u>\$ 342,331</u>

Business-type activities - Water and sewer fund	<u>\$ 487,470</u>
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NOTE 7 - DEBT AND OTHER OBLIGATIONS

At June 30, 2003, long-term debt consisted of the following:

Governmental Activities:

Fiscal Stabilization Bonds, series 2002, due in annual installments of \$220,000 to \$430,000 through November, 2022 with interest at rates varying between 2% and 5%, collateralized by an assignment of State revenue sharing payments

\$ 6,000,000

Compensated absences

373,327

Claims and litigation

188,261

Business-type Activities:

State revolving fund loans, payable to the Charter County of Wayne, due in annual installments of \$577,000 to \$825,000 plus interest through October, 2019. These loans are paid in part by a City levy on County tax rolls.

8,726,250

Total long-term debt

15,287,838

Current maturities

797,477

Long-term debt

\$ 14,490,361

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 7 - DEBT AND OTHER OBLIGATIONS - CONTINUED

Transactions for the year ended June 30, 2003 are summarized as follows:

	<u>Balance</u> <u>7/1/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/03</u>
Governmental type activities:				
Fiscal stabilization bonds	\$	\$ 6,000,000	\$	\$ 6,000,000
Compensated absences	260,989	112,338		373,327
Claims and litigation	<u>79,651</u>	<u>108,610</u>		<u>188,261</u>
Total governmental activities	\$ 340,640	\$ 6,220,948	\$	\$ 6,561,588
Business-type Activities				
State revolving fund loans	<u>9,289,601</u>		<u>563,351</u>	<u>8,726,250</u>
Total Government	<u>\$9,630,241</u>	<u>\$ 6,220,948</u>	<u>\$ 563,351</u>	<u>\$14,726,250</u>

The aggregate annual maturities for each bond-type of debt, are as follows:

Year ending <u>June 30</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principle</u>	<u>Interest</u>	<u>Total</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 220,000	\$ 229,123	\$ 449,123	\$ 577,477	\$ 187,330	\$ 577,477
2005	225,000	224,672	449,672	586,572	174,108	760,680
2006	230,000	220,122	450,122	606,520	160,951	767,471
2007	235,000	215,120	450,120	610,785	147,989	758,774
2008	240,000	209,178	449,178	630,878	134,753	765,631
thereafter	<u>4,850,000</u>	<u>1,823,914</u>	<u>6,673,914</u>	<u>5,714,018</u>	<u>595,358</u>	<u>6,309,376</u>
Total	<u>\$ 6,000,000</u>	<u>\$ 2,922,129</u>	<u>\$ 8,922,129</u>	<u>\$ 8,726,250</u>	<u>\$ 1,400,489</u>	<u>\$ 10,126,739</u>

NOTE 8 - PENSION PLANS

Police and Fire Pension - Single-Employer Plan:

The City maintains a single-employer pension plan for members of its police and fire departments. This plan is administered by a three member board of trustees, elected by the members of the police department, fire department, and City counsel (one member appointed by each). This pension fund is reported as a fiduciary fund in the accompanying financial statements.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 8 - PENSION PLANS - CONTINUED

The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire after reaching the age of 60 or accumulating 26 years of service. Benefits vest after 10 years of service. Employees, who retire at or after age 60 with 10 or more years of service, are entitled to pension payments for the remainder of their lives, in annual amounts equal to 65% of their highest three consecutive years average compensation.

Pension provisions include deferred allowances whereby an employee may terminate his or her employment with the City after accumulating 20 years of service. If the employee does not withdraw their accumulated contributions, the employee will be entitled to an annual pension, which will be reduced by 2.5% for each year of service less than 26.

Pension provisions include death and disability benefits whereby the disabled employee or a surviving spouse will be entitled to receive the full annual normal retirement amount. The disabled employee is entitled to receive disability payments for life, while a surviving spouse may receive death benefits for life, provided the spouse does not remarry.

Funding Policy:

The pension plan, which covered all police and fire department personnel prior to 1987, was closed to new hires in 1988. In connection with the 1988 agreement to close this plan, all police and fire personnel hired after January 1, 1980 are members of the Michigan Municipal Employees Retirement System (MMERS). In 1989, the Pension Board and the receiver reached an agreement, which provides that the City will contribute \$1,100,000 annually to the plan until the plan's actuarial liability is liquidated. This contribution is funded by a judgment levy and is payable annually on March 15. If additional funds are required, payment will be made from general governmental funds.

Annual Pension Cost:

For the year ended June 30, 2003, the City contributed \$1,179,651 to the plan. Significant actuarial assumptions, used for the year ended June 30, 2003, are as follows:

- Mortality - 1983 Group annuity mortality tables
- Withdrawal from service - None assumed
- Disability - None assumed
- Investment returns - Active and retired lives - 8%
- Salary scale - salaries assumed to increase each year by 4%, compounded annually
- Retirement Age - for funding, age 50 and 25 years of service
- Valuation method - projected unit credit method

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 8 - PENSION PLANS – CONTINUED

	<u>Actuarial Valuation as of June 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Market value of plan assets	\$ 8,123,897	\$ 8,021,778	\$ 8,891,850
Present value of plan liabilities	<u>10,972,042</u>	<u>11,570,624</u>	<u>11,525,815</u>
Unfunded pension benefits	<u>\$ 2,848,145</u>	<u>\$ 3,548,846</u>	<u>\$ 2,633,965</u>

Michigan Municipal Employees Retirement System (MMERS) - Multi-employer plan:

Plan description:

The City is a participant in MMERS to provide retirement benefits to its current and former employees. MMERS was established in 1945 and is organized pursuant to the provisions of Act 427 of the Public Acts of 1984, as amended by 1996 Public Act 220, of the state of Michigan. MMERS is a defined benefit plan provided through an agent multiple-employer public employee retirement system, and covers substantially all City employees. The City joined MMERS in 1980.

MMERS is controlled by the participating organizations and their covered employees, with ultimate control by the Michigan legislature. Benefits are established by state statute. The plan provides pension benefits, deferred allowances, and death and disability benefits to plan members and their beneficiaries. MMERS issues financial statements and required supplementary information for the retirement system. This publicly available report may be obtained by requesting a copy, in writing, from the system at 447 N. Canal Rd., Lansing, MI 48917.

Funding policy:

The obligation to make contributions and maintain participation in MMERS for its employees was established by negotiation with the City's competitive bargaining units. No contributions to the plan are required from the City's employees.

Annual pension cost:

For the year ended June 30, 2003, the City's annual pension payments to MMERS of \$697,189 did not meet the required contribution of \$786,585. The annual required contribution was determined as part of an actuarial valuation at December 31, 1999, using the entry age normal cost method. Significant actuarial assumptions included a) an 8% investment rate of return, b) projected salary increases of 4.5% per year, c) assumed rates of withdrawal applied, are based

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 8 - PENSION PLANS – CONTINUED

upon years of service for members with less than 5 years of service, and are based upon age for members with over 5 years of service, and d) an inflation component of 4.5% is assumed.

The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized by a level percentage of payroll contributions over a period ranging from 30 to 36 years.

Three year trend information follows:

	<u>Fiscal years ended June 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Required Annual Pension Contribution	\$ 697,189	\$ 697,142	\$ 849,148
Percentage contributed	88%	84%	100%

Deferred Compensation Plan:

The City offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan is available to all City employees and permits them to defer a portion of their salary until future years. Payments made to the plan are not available to employees until termination, retirement, death or unforeseen emergency. The City has no liability for losses under the plan agreement, but does have the duty of due care that would be required of an ordinary prudent investor.

NOTE 9 - POST-EMPLOYMENT HEALTHCARE BENEFITS

In accordance with union contracts, healthcare benefits are paid for covered employees. The insurance premium cost of this benefit is paid 100% by the City. The City records the expense for this benefit at the time the premium is paid.

Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual

Special Revenue and Debt Service Funds

Non-major Governmental Funds:

Special Revenue Funds:

Major Streets Fund - This fund is used to account for monies received from the State of Michigan under Act 51 (state gasoline tax revenues), and is used for the maintenance of designated streets within the city.

Local Streets Fund - This fund also accounts for Act 51 monies received, and is used for all city streets, not designated as major.

Drug Enforcement Fund - This is used to hold monies received from the forfeiture and confiscation of funds seized by the police department in enforcing drug statutes. Use of these funds are restricted to specified uses by the police department.

Library Fund - This fund is used to account for the revenues received and expenses incurred for the operation of the public library.

Community Development Block Grant Fund - This fund is used to account for the revenues and expenditures of funds received through the community development block grant.

Debt Service Funds:

Fiscal Stabilization Bond Fund - This fund is used to account for monies to be applied to retire the fiscal stabilization bonds.

CITY OF ECORSE, MICHIGAN

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2003

	Special Revenue Funds				Special Revenue Funds		Debt Service	
	Major Street Fund	Local Street Fund	Drug enforcement Fund	Library Fund	Community Development Block Grant Fund	Special Revenue Funds Totals	Fiscal Stabilization Bond Fund	Totals
Assets								
Cash	\$ 348,420	\$ 251,953	\$ 16,777	\$ 51,954	\$ (25,830)	\$ 643,274	\$ 175,326	\$ 818,600
Due from other governments	288,165	27,578			124,379	440,122		440,122
Bond issuance costs, net							163,455	163,455
Inter-fund balances	25,373	(2,614)	9,182	3,602	(11,620)	23,923		23,923
Total assets	\$ 661,958	\$ 276,917	\$ 25,959	\$ 55,556	\$ 86,929	\$ 1,107,319	\$ 338,781	\$ 1,446,100
Liabilities								
Accounts payable	\$ 29,803	\$ 11,440	\$ 24,791	\$ 32,902	\$ 9	\$ 98,945	\$ 38,554	\$ 98,945
Accrued interest						278		38,554
Accrued salaries				278				278
Total liabilities	29,803	11,440	24,791	33,180	9	99,223	38,554	137,777
Fund Balances								
Reserved for debt service							300,227	300,227
Unreserved	632,155	265,477	1,168	22,376	86,920	1,008,096		1,008,096
Total liabilities and fund Balances	\$ 661,958	\$ 276,917	\$ 25,959	\$ 55,556	\$ 86,929	\$ 1,107,319	\$ 338,781	\$ 1,446,100

CITY OF ECORSE, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2003

	Special Revenue				Community Development Block Grant Fund	Special Revenue Funds Totals	Debt Service Fiscal Stabilization Bond Fund	Totals
	Major Street Fund	Local Street Fund	Drug Enforcement Fund	Library Fund				
Revenues								
Property taxes	\$ 430,950	\$ 159,702	\$	\$ 63,964	\$	\$ 63,964	\$	\$ 63,964
State shared revenue						590,652		590,652
Grants					288,556	288,556		288,556
Fines and forfeits			50,037			50,037		50,037
Miscellaneous					19,444	19,444		19,444
Interest			921			921	157	1,078
Total revenues	430,950	159,702	50,958	63,964	308,000	1,013,574	157	1,013,731
Expenditures								
Public Safety			151,932			151,932		151,932
Public Works	355,834	175,613		80,310	256,333	787,780		787,780
Recreational/cultural					9,809	90,119		90,119
Debt service	355,834	175,613	151,932	80,310	266,142	1,029,831	160,851	160,851
Total Expenditures	75,116	(15,911)	(100,974)	(16,346)	41,858	(16,257)	(160,694)	(176,951)
Revenues over (under) expenditures								
Other financing sources (uses):								
Transfers from Major Street fund to Local Street fund	(107,737)	107,737						
Transfers to General fund for administration	(43,095)	(15,970)			(22,100)	(81,165)		(81,165)
Transfers (to) from General fund - net							460,921	460,921
Total other financing sources (uses)	(150,832)	91,767			(22,100)	(81,165)	460,921	379,756
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(75,716)	75,856	(100,974)	(16,346)	19,758	(97,422)	300,227	202,805
Fund balances, July 1, 2002	707,871	189,621	102,142	38,722	67,162	1,105,518		1,105,518
Fund balances, June 30, 2003	\$ 632,155	\$ 265,477	\$ 1,168	\$ 22,376	\$ 86,920	\$ 1,008,096	\$ 300,227	\$ 1,308,323

CITY OF ECORSE, MICHIGAN

SPECIAL REVENUE FUND - MAJOR STREETS FUND

BUDGETED AND ACTUAL REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2003

WITH COMPARATIVE ACTUAL TOTALS FOR 2002

	2003		Budget Variance Positive (Negative)	2002 Actual GAAP Basis
	Budgeted Amounts Original and Final	Actual GAAP Basis		
Revenues:				
State-shared revenue	\$ 350,000	\$ 430,950	\$ 80,950	\$ 331,709
Interest	5,000		(5,000)	
Total revenues	355,000	430,950	75,950	331,709
Expenditures:				
Construction - Roads	15,000	7,365	7,635	66,817
Maintenance:				
Contracted services	165,000	242,668	(77,668)	104,063
Routine maintenance	45,000	43,386	1,614	2,005
Traffic services	22,000	33,028	(11,028)	1,487
Winter maintenance	45,000	29,387	15,613	6,769
Total expenditures	292,000	355,834	(63,834)	181,141
Excess revenues over expenditures	63,000	75,116	12,116	150,568
Other financing uses:				
Transfers to Local Street Fund		107,737	(107,737)	107,230
Transfers to General Fund - administration	45,000	43,095	1,905	42,892
Total other financing uses	45,000	150,832	(105,832)	150,122
Excess (deficiency) of revenues over expenditures and other financing uses	18,000	(75,716)	(93,716)	446
Fund balance, beginning of year	717,284	707,871	(9,413)	707,425
Fund balance, end of year	\$ 735,284	\$ 632,155	\$ (103,129)	\$ 707,871

CITY OF ECORSE, MICHIGAN

SPECIAL REVENUE FUND - LOCAL STREETS FUND

BUDGETED AND ACTUAL REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2003

WITH COMPARATIVE ACTUAL TOTALS FOR 2002

	2003		Budget Variance Positive (Negative)	2002 Actual GAAP Basis
	Budgeted Amounts <u>Original and Final</u>	Actual GAAP <u>Basis</u>		
Revenues:				
State-shared revenue	\$ 160,000	\$ 159,702	\$ (298)	\$ 158,813
Interest	2,000		(2,000)	
Total revenues	<u>162,000</u>	<u>159,702</u>	<u>(2,298)</u>	<u>158,813</u>
Expenditures:				
Construction - Professional services	30,000		30,000	
Maintenance:				
Contracted services	7,000	45,502	(38,502)	8,356
Routine maintenance	45,000	68,914	(23,914)	38,507
Traffic services	6,000	35,160	(29,160)	34,745
Winter maintenance	65,000	26,037	38,963	29,280
Alley maintenance	22,000		22,000	
Total expenditures	<u>175,000</u>	<u>175,613</u>	<u>(613)</u>	<u>110,888</u>
Excess revenues over expenditures	<u>(13,000)</u>	<u>(15,911)</u>	<u>(2,911)</u>	<u>47,925</u>
Other financing sources (uses):				
Transfers from Major Street Fund		107,737	107,737	107,230
Transfers (to) from General Fund - administration	15,000	(15,970)	(30,970)	(15,881)
Total other financing sources (uses)	<u>15,000</u>	<u>91,767</u>	<u>76,767</u>	<u>91,349</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	2,000	75,856	73,856	139,274
Fund balance, beginning of year	<u>52,061</u>	<u>189,621</u>	<u>137,560</u>	<u>50,347</u>
Fund balance, end of year	<u>\$ 54,061</u>	<u>\$ 265,477</u>	<u>\$ 211,416</u>	<u>\$ 189,621</u>

CITY OF ECORSE, MICHIGAN

SPECIAL REVENUE FUND - DRUG ENFORCEMENT FUND

BUDGETED AND ACTUAL REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2003

WITH COMPARATIVE ACTUAL TOTALS FOR 2002

	2003		Budget	2002
	Budgeted Amounts	Actual	Variance	Actual
	<u>Original and Final</u>	<u>GAAP</u>	<u>Positive</u>	<u>GAAP</u>
		<u>Basis</u>	<u>(Negative)</u>	<u>Basis</u>
Revenues:				
Fines and forfeits	\$ 50,000	\$ 50,037	\$ 37	\$ 107,374
Interest		921	921	770
Total revenues	<u>50,000</u>	<u>50,958</u>	<u>958</u>	<u>108,144</u>
Expenditures:				
Police operating expenses	50,000	63,246	(13,246)	29,568
Capital equipment purchases		88,686	(88,686)	46,553
Total expenditures	<u>50,000</u>	<u>151,932</u>	<u>(101,932)</u>	<u>76,121</u>
Excess revenues over expenditures	-	(100,974)	(100,974)	32,023
Fund balance, beginning of year	<u>70,119</u>	<u>102,142</u>	<u>32,023</u>	<u>70,119</u>
Fund balance, end of year	<u>\$ 70,119</u>	<u>\$ 1,168</u>	<u>\$ (68,951)</u>	<u>\$ 102,142</u>

CITY OF ECORSE, MICHIGAN

SPECIAL REVENUE FUND - LIBRARY FUND

BUDGETED AND ACTUAL REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2003

WITH COMPARATIVE ACTUAL TOTALS FOR 2002

	2003		Budget	2002
	Budgeted Amounts	Actual	Variance	Actual
	<u>Original and Final</u>	<u>GAAP</u>	<u>Positive</u>	<u>GAAP</u>
		<u>Basis</u>	<u>(Negative)</u>	<u>Basis</u>
Revenues:				
Property taxes	\$ 140,000	\$ 63,964	\$ (76,036)	\$ 150,424
Total revenues	<u>140,000</u>	<u>63,964</u>	<u>(76,036)</u>	<u>150,424</u>
Expenditures:				
Salaries and payroll taxes	7,000	8,904	(1,904)	8,158
Wayne County library network	125,000	70,886	54,114	107,722
Supplies	5,000		5,000	
Building maintenance	<u>3,000</u>	<u>520</u>	<u>2,480</u>	
Total expenditures	<u>140,000</u>	<u>80,310</u>	<u>59,690</u>	<u>115,880</u>
Excess revenues over expenditures		(16,346)	(16,346)	34,544
Fund balance, beginning of year	<u>4,177</u>	<u>38,722</u>	<u>34,545</u>	<u>4,178</u>
Fund balance, end of year	<u>\$ 4,177</u>	<u>\$ 22,376</u>	<u>\$ 18,199</u>	<u>\$ 38,722</u>

CITY OF ECORSE, MICHIGAN

SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT BLOCK GRANT FUND

BUDGETED AND ACTUAL REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2003

WITH COMPARATIVE ACTUAL TOTALS FOR 2002

	2003		Budget	2002
	Budgeted Amounts	Actual	Variance	Actual
	<u>Original and Final</u>	<u>GAAP</u>	<u>Positive</u>	<u>GAAP</u>
		<u>Basis</u>	<u>(Negative)</u>	<u>Basis</u>
Revenues:				
Federal grants	\$ 221,100	\$ 288,556	\$ 67,456	\$ 28,635
Program income		19,444	19,444	62,854
Total revenues	<u>221,100</u>	<u>308,000</u>	<u>86,900</u>	<u>91,489</u>
Expenditures:				
Parks and playgrounds	80,000	9,809	70,191	7,000
Street improvements	118,900	174,113	(55,213)	
Consultant fees		25,000	(25,000)	
Housing rehabilitation		48,518	(48,518)	
Building demolition		8,540	(8,540)	4,975
Miscellaneous		162	(162)	767
Total expenditures	<u>198,900</u>	<u>266,142</u>	<u>(67,242)</u>	<u>12,742</u>
Excess revenues over expenditures	<u>22,200</u>	<u>41,858</u>	<u>19,658</u>	<u>78,747</u>
Other Financing Uses:				
Transfers to General Fund - administration	<u>22,100</u>	<u>22,100</u>		<u>19,500</u>
Total other financing uses	<u>22,100</u>	<u>22,100</u>		<u>19,500</u>
Excess (deficiency) of revenues over expenditures and other financing uses	100	19,758	19,658	59,247
Fund balance, beginning of year	<u>7,914</u>	<u>67,162</u>	<u>59,248</u>	<u>7,915</u>
Fund balance, end of year	<u>\$ 8,014</u>	<u>\$ 86,920</u>	<u>\$ 78,906</u>	<u>\$ 67,162</u>

CITY OF ECORSE, MICHIGAN

DEBT SERVICE FUND - FISCAL STABILIZATION BOND FUND

BUDGETED AND ACTUAL REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2003

	2003		Budget Variance
	Budgeted Amounts <u>Original and Final *</u>	Actual GAAP Basis	Positive (Negative)
Revenues:			
Interest	\$	\$ 157	\$ 157
Total revenues		157	157
Expenses:			
Interest expense		154,215	(154,215)
Amortization of bond issue costs		5,636	(5,636)
Trustee fees		1,000	(1,000)
Total expenditures		160,851	(160,851)
Excess revenues over expenditures		(160,694)	(160,694)
Other Financing Uses:			
Transfers from General Fund - net		460,921	460,921
Total other financing uses		460,921	460,921
Excess (deficiency) of revenues over expenditures and other financing uses		300,227	300,227
Fund balance, beginning of year			
Fund balance, end of year	\$	\$ 300,227	\$ 300,227

* No budget for this fund was adopted

CITY OF ECORSE, MICHIGAN

COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

JUNE 30, 2003

	Police and Fire Pension Trust	Current Tax Collection Fund	Fire Insurance Escrow Fund	District Court Trust Fund	Totals
Assets:					
Cash	\$	\$ 36,538	\$ 43,148	\$ 187,673	\$ 267,359
Investments	8,123,897				
Due from other governmental units		1,469,070			1,469,070
Total Assets	<u>\$ 8,123,897</u>	<u>\$ 1,505,608</u>	<u>\$ 43,148</u>	<u>\$ 187,673</u>	<u>\$ 1,736,429</u>
Liabilities:					
Due to other governmental units		\$ 1,505,608	\$	\$	\$ 1,505,608
Refundable court bonds				100,520	100,520
Deposits			43,148		43,148
Other liabilities				87,153	87,153
Total Liabilities		<u>\$ 1,505,608</u>	<u>\$ 43,148</u>	<u>\$ 187,673</u>	<u>\$ 1,736,429</u>
Net Assets					
Reserved for pension benefits	<u>\$ 8,123,897</u>				

CITY OF ECORSE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GENERAL FUND

BUDGET TO ACTUAL

YEAR ENDED JUNE 30, 2003 (WITH COMPARATIVE ACTUAL TOTALS FOR 2002)

	Budgeted Amounts Original and Final	Actual GAAP Basis	Budget Variance Positive (Negative)	2002 Actual GAAP Basis
Revenues				
Property taxes	\$ 6,291,725	\$ 6,594,278	\$ 302,553	\$ 6,719,526
State shared revenues	2,427,725	2,089,748	(337,977)	2,538,183
Grants	119,900	82,033	(37,867)	48,866
Licenses and permits	283,685	207,844	(75,841)	250,884
Fees and charges	762,840	946,886	184,046	676,944
Other revenues	190,300	162,572	(27,728)	378,983
Interest income	125,000	21,707	(103,293)	94,250
Total revenues	10,201,175	10,105,068	(96,107)	10,707,536
Expenditures				
General government	\$ 3,887,213	\$ 4,083,545	\$ (196,332)	\$ 3,922,030
Judicial	336,737	428,139	(91,402)	394,902
Public safety	5,111,102	5,525,637	(414,535)	5,203,669
Public works	209,000	341,139	(132,139)	519,974
Recreational/cultural	63,680	66,738	(3,058)	46,394
Capital outlays	127,000	135,383	(8,383)	97,695
Total expenditures	9,734,732	10,580,581	(845,849)	10,184,664
Revenues over (under) expenditures	466,443	(475,513)	(941,956)	522,972
Other financing sources (uses)				
Net proceeds from fiscal stabilization bond			5,825,294	
Transfers to debt service fund		(286,215)	(286,215)	
Transfers in (out) for administration		81,165	81,165	185,503
Transfers in for administration from proprietary fund		113,345	113,345	176,342
Property tax refund				(197,628)
Total other financing sources (uses)		5,733,589	5,733,589	164,217
Revenues over (under) expenditures and financing sources (uses)	466,443	5,258,076	4,791,633	687,189
Fund balances, July 1, 2002	(1,802,756)	(1,115,567)	687,189	(1,802,756)
Fund balances, June 30, 2003	\$ (1,336,313)	\$ 4,142,509	\$ 5,478,822	\$ (1,115,567)

Budgeted amounts are prepared on a GAAP basis

CITY OF ECORSE, MICHIGAN

SCHEDULE OF REVENUES - BUDGET TO ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2003

WITH COMPARATIVE ACTUAL TOTALS FOR 2002

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Property Taxes:			
Property Tax Revenues	\$ 6,056,725	\$ 6,327,705	\$ 270,980
Payment in Lieu of Taxes	24,000	42,081	18,081
Praxair IFT Payment	211,000	224,492	13,492
	<u>6,291,725</u>	<u>6,594,278</u>	<u>302,553</u>
Licenses and Permits:			
Cable TV Fees	90,395	74,075	(16,320)
Trailer Licenses	1,000	881	(119)
Various Business Licenses	36,050	26,663	(9,387)
Plumbing License Permit	42,000	16,935	(25,065)
Electric License Permit	26,250	17,556	(8,694)
Building Permits	86,625	70,659	(15,966)
Building Inspections	1,365	1,075	(290)
	<u>283,685</u>	<u>207,844</u>	<u>(75,841)</u>
State and Federal:			
State of Michigan DEQ	9,500		(9,500)
Police Training Grants	7,820	3,332	(4,488)
Detroit Area Agency on Aging and SMART Grants	38,000	24,713	(13,287)
State-Shared Revenue/Sales Tax	2,427,725	2,089,748	(337,977)
	<u>2,483,045</u>	<u>2,117,793</u>	<u>(365,252)</u>
Fees and Charges:			
Miscellaneous Fees	20,600	20,169	(431)
Resale of City Property	41,200	33,081	(8,119)
Towing Revenue	25,750	21,394	(4,356)
Ambulance Fees	108,790	92,707	(16,083)
District Court Revenues	566,500	779,535	213,035
	<u>762,840</u>	<u>946,886</u>	<u>184,046</u>
Other Revenue:			
Reimbursement for Judge's Salary	45,725	45,724	(1)
Interest Income	125,000	21,707	(103,293)
Rental Income - Ameritech	6,500	7,250	750
Workers' Compensation Rebate	27,000	1,288	(25,712)
Workers' Compensation Recovery	5,800	3,408	(2,392)
Other Revenues and Reimbursements	151,000	150,626	(374)
Liquor Tax Reimbursements	8,855	8,264	(591)
Great Lakes Steel - Community Grant	10,000		(10,000)
	<u>379,880</u>	<u>238,267</u>	<u>(141,613)</u>
TOTAL REVENUES	<u>\$ 10,201,175</u>	<u>\$ 10,105,068</u>	<u>\$ (96,107)</u>

CITY OF ECORSE, MICHIGAN

SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2003

WITH COMPARATIVE ACTUAL TOTALS FOR 2002

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Legislative:			
Salaries	\$ 18,561	\$	\$ 18,561
Salaries - Mayor and Council	39,000	43,917	(4,917)
FICA	4,403	3,524	879
Pension			
Travel	500		500
Office Supplies	800	184	616
Attorney's Fees	500	3,825	(3,325)
Miscellaneous		901	(901)
	<u>63,764</u>	<u>52,351</u>	<u>11,413</u>
Judicial:			
Salaries	167,791	220,143	(52,352)
FICA	12,836	13,314	(478)
Health Insurance	54,450	69,319	(14,869)
Pension	68,160	81,384	(13,224)
Office Supplies	12,000	13,127	(1,127)
Books and Subscriptions	1,500	3,202	(1,702)
Contractual Services/Probation	18,000	15,019	2,981
Witness Fees	1,000	591	409
Miscellaneous	1,000	12,040	(11,040)
	<u>336,737</u>	<u>428,139</u>	<u>(91,402)</u>
General Government:			
Elections:			
Supplies and Equipment	1,000	905	95
Contractual Workers	19,000	16,208	2,792
	<u>20,000</u>	<u>17,113</u>	<u>2,887</u>
Assessor:			
Salaries	29,787	30,716	(929)
Salaries - Assessor	4,000	4,333	(333)
Overtime	200	193	7
FICA	2,600	2,684	(84)
Health Insurance	2,900	5,777	(2,877)
Pension	13,377	8,551	4,826
Office Supplies	1,000	668	332
Department Supplies	30,000	35,918	(5,918)
	<u>83,864</u>	<u>88,840</u>	<u>(4,976)</u>
City Clerk:			
Salaries	59,690	68,807	(9,117)
Salaries - Clerk	10,000	10,833	(833)
Overtime	2,000	4,814	(2,814)
FICA	4,570	6,276	(1,706)
Health Insurance	16,800	23,106	(6,306)

CITY OF ECORSE, MICHIGAN

SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2003

WITH COMPARATIVE ACTUAL TOTALS FOR 2002

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Pension	20,520	24,307	(3,787)
Office Supplies	13,500	3,284	10,216
Postage		13,304	(13,304)
Department Supplies	4,500		4,500
	<u>131,580</u>	<u>154,731</u>	<u>(23,151)</u>
Controller:			
Salaries	147,000	168,422	(21,422)
Overtime	1,000		1,000
FICA	11,322	12,855	(1,533)
Health Insurance	21,408	28,883	(7,475)
Pension	29,990	8,394	21,596
Workers' Compensation	25,000		25,000
Office Supplies	8,000	2,597	5,403
Workshops/Travel	500	65	435
	<u>244,220</u>	<u>221,216</u>	<u>23,004</u>
Auditors:	60,000	116,329	(56,329)
Treasurer:			
Salaries	54,470	56,835	(2,365)
Salaries - Treasurer	7,000	7,583	(583)
Overtime	2,000	2,442	(442)
FICA	5,315	5,116	199
Health Insurance	10,800	11,553	(753)
Pension	24,300	20,657	3,643
Office Supplies	2,000	4,875	(2,875)
Computer Expense		2,077	(2,077)
Consulting Services	35,000	4,521	30,479
	<u>140,885</u>	<u>115,659</u>	<u>25,226</u>
General Government:			
Long-term Disability	2,000	2,743	(743)
Union Settlement	5,000		5,000
Unemployment Compensation	11,600	40,545	(28,945)
Workers Compensation	3,000	64,583	(61,583)
Office Supplies		3,867	(3,867)
Postage	10,000	7,188	2,812
Downriver Mutual Aid	10,000	4,750	5,250
Michigan Municipal League	8,000	7,537	463
Attorney Fees	209,000	283,275	(74,275)
Arbitration and Lawsuit Settlements	3,000	46,983	(43,983)
Consultants Fees	50,000		50,000
Physicals: All Departments	2,000	5,215	(3,215)
Retirees Health Insurance	1,100,000	1,155,631	(55,631)
Retirees Death Benefits	10,000	20,000	(10,000)

CITY OF ECORSE, MICHIGAN

SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2003

WITH COMPARATIVE ACTUAL TOTALS FOR 2002

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Garbage Disposal	300,000	326,959	(26,959)
Riverview Dumping	120,000	129,275	(9,275)
Telephone	45,000	50,936	(5,936)
Water Festival and July 4th Celebration	12,000		12,000
General Liability Insurance	500,000	394,491	105,509
Newspaper Ads	5,000	14,073	(9,073)
Lighting: Streets	310,000	298,608	11,392
Lighting: Facilities	120,000	107,238	12,762
Gas Utilities	25,000	45,094	(20,094)
Office Machine Maintenance	3,800	15,299	(11,499)
All Building Maintenance	200,000	235,683	(35,683)
Computer Expenses	40,000	25,831	14,169
Xerox Machine and Paper	11,000		11,000
Equipment Rental		11,120	(11,120)
Miscellaneous	27,500	20,382	7,118
	<u>3,142,900</u>	<u>3,317,306</u>	<u>(174,406)</u>
 Total General Government	 <u>3,823,449</u>	 <u>4,031,194</u>	 <u>(207,745)</u>
 Public Safety:			
Police Department:			
Salaries	1,568,979	1,417,909	151,070
Overtime	50,000	228,799	(178,799)
Act 312 Settlement - Back Pay	15,000		15,000
FICA	28,130	18,100	10,030
Health Insurance	221,347	286,353	(65,006)
Workers Compensation	50,000		50,000
Charter Pension	693,000	743,180	(50,180)
MERS Pension	286,760	335,022	(48,262)
Office Supplies	16,000	29,947	(13,947)
Ammunition	700	1,563	(863)
Prisoners' Meals and Holding	190,000	181,102	8,898
Downriver Mutual Aid	8,000	6,506	1,494
Police Training (Act 302)	50,000	7,419	42,581
Vehicle Expense: Repairs and Maintenance	16,000	34,518	(18,518)
Vehicle Expense: Gas, Oil, and Lube	14,000	32,806	(18,806)
Radio Maintenance	2,000	3,209	(1,209)
Traffic Lights	20,000		20,000
Miscellaneous	8,000	43,108	(35,108)
	<u>3,237,916</u>	<u>3,369,541</u>	<u>(131,625)</u>
 Fire Department:			
Salaries	847,582	943,001	(95,419)
Overtime	20,000	114,330	(94,330)

CITY OF ECORSE, MICHIGAN

SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2003

WITH COMPARATIVE ACTUAL TOTALS FOR 2002

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
FICA	17,150	20,546	(3,396)
Health Insurance	103,038	130,178	(27,140)
Workers Compensation	35,000		35,000
Charter Pension	407,000	436,471	(29,471)
MERS Pension	138,711	173,315	(34,604)
Office Supplies	2,500	3,443	(943)
Departmental Supplies	16,500	37,249	(20,749)
Laundry	2,000	6,485	(4,485)
Training	1,000		1,000
Various Maintenance	3,000	5,989	(2,989)
Vehicle Expense: Repairs and Maintenance	15,000	6,563	8,437
Vehicle Expense: Gas, Oil, and Lube	8,400	2,602	5,798
Sundry & Other	7,000	13,070	(6,070)
	<u>1,623,881</u>	<u>1,893,242</u>	<u>(269,361)</u>
Building, Engineering and Inspections:			
Salaries	69,240	70,457	(1,217)
Overtime	500		500
FICA	5,335	5,511	(176)
Health Insurance	13,120	17,329	(4,209)
Pension	31,110	31,688	(578)
Office Supplies	2,000	180	1,820
Inspector's Fees	18,000		18,000
Professional/Contractual Service	100,000	136,660	(36,660)
Miscellaneous	10,000	1,029	8,971
	<u>249,305</u>	<u>262,854</u>	<u>(13,549)</u>
Subtotal Public Safety	<u>5,111,102</u>	<u>5,525,637</u>	<u>(414,535)</u>
Capital Outlay - Equipment - Assessor's		1,575	(1,575)
Capital Outlay - Equipment - Controller's	2,000	3,150	(1,150)
Capital Outlay - Equipment - Treasurer's	5,000	12,197	(7,197)
Capital Outlay - Equipment - General	80,000	65,031	14,969
Capital Outlay - Equipment - Police	20,000	36,054	(16,054)
Capital Outlay - Equipment - Fire	20,000	15,801	4,199
Capital Outlay - Equipment - Building, Engineering and Inspections		1,575	(1,575)
	<u>127,000</u>	<u>135,383</u>	<u>(8,383)</u>
Public Works:			
Contracted Service: General Labor	50,000	38,460	11,540
Contracted Service: Park Maintenance	65,000	46,295	18,705
Contracted Service: Rubbish Removal	94,000	225,884	(131,884)
Contracted Service: Miscellaneous		30,500	(30,500)
	<u>209,000</u>	<u>341,139</u>	<u>(132,139)</u>
Senior Citizens:			
Salaries	35,000	38,403	(3,403)

CITY OF ECORSE, MICHIGAN

SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2003

WITH COMPARATIVE ACTUAL TOTALS FOR 2002

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
FICA	2,680	2,524	156
Vehicle Repairs and Maintenance	1,000	6,134	(5,134)
	<u>38,680</u>	<u>47,061</u>	<u>(8,381)</u>
Recreation:			
Director's Salary	4,700	2,472	2,228
FICA	300	231	69
Recreation Expense	20,000	16,974	3,026
	<u>25,000</u>	<u>19,677</u>	<u>5,323</u>
 TOTAL EXPENDITURES	 <u>\$ 9,734,732</u>	 <u>\$ 10,580,581</u>	 <u>\$ (845,849)</u>

CITY OF ECORSE, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - PENSION PLANS

The following presents the funding progress for the City's pension plans:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
Police and Fire Pension Trust:						
6/30/03	\$ 8,123,987	\$ 10,972,042	74%	\$ 2,848,055	\$ 206,173	1,381%
6/30/02	8,021,778	11,570,624	69%	3,548,846	266,489	1,332%
6/30/01	8,891,850	11,525,815	77%	2,633,965	197,950	1,331%

Michigan Municipal Employees Retirement System:

12/31/02	\$ 14,938,096	\$ 27,428,911	54%	\$ 12,490,815	\$ 2,601,910	480%
12/31/01	15,661,860	27,539,954	57%	11,878,094	2,734,478	434%
12/31/00	14,652,397	23,223,946	63%	8,571,549	2,970,203	289%

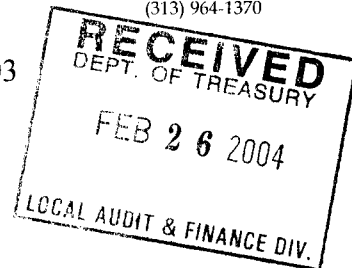
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December 16, 2003



Mayor and City Council
City of Ecorse, Michigan

In planning and performing our audit of the governmental financial statements of the City of Ecorse for the year ended June 30, 2003, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 16, 2003 on the governmental financial statements of the City of Ecorse.

We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Martin, Arrington & Hasse, P.C.
Martin, Arrington & Hasse, P.C.
Certified Public Accountants

Enclosures

GENERAL OBSERVATIONS

In auditing the financial statements for the year ended June 30, 2003, we encountered many of the same deficiencies as have been noted in prior years. All of the following comments are repeated from our management letter, dated January 27, 2003 as related to our audit for the year ended June 30, 2002, and in many instances from the Management Comment letters issued for the 1999 to 2001 fiscal year audits. Financial records are not maintained in a current manner. Basic internal control procedures, such as promptly reconciling bank accounts, are not performed. Billings for amounts due to the City are not prepared in a timely manner, if at all. Budgets are prepared late, without proper input from the individuals responsible for budget areas, and are not monitored during the year. Procedures for cash receipts functions are not followed.

As we have mentioned in prior years' management comments, the City still needs to address the following critical problem areas:

- General ledger and financial analysis
- Budgeting
- Reporting
- Billings

The City continues to process receipts and disbursements through the general ledger, without further review or reconciliation of the entries made. During our audit, we noted instances where items were not posted, were posted in duplicate, or were posted to incorrect accounts or funds. Over 225 adjusting entries and 55 reclassification entries had to be made in the audit to get various accounts to their proper balances. Every significant account in the general ledger required adjustment.

Bank accounts were not reconciled during the year, which necessitated our staff having to prepare the reconciliations. In so doing, we noted numerous errors of omission and commission. Cash receipts per the general ledger did not agree with bank statement deposits. Transfers between bank accounts were not recorded or were recorded incorrectly. Disbursements were not always posted to the general ledger. Voided checks were not always recorded in the accounting system, or were recorded incorrectly. Substantial audit effort was required in recording or correcting accounting entries. Audit fees could be reduced substantially if the controller's office could do a better job of maintaining the accounting records.

The Controller continues to prepare the budget with very little input from department heads or those responsible for a given budget area. The fiscal 2003 budgets for the Special Revenue funds were prepared late, and were not approved by Council until June 25, 2002, some three months later than required by the City's charter. Additional findings related to the budget are discussed later in this letter.

As of June 30, 2003, the accounting department was still not capable of preparing internal financial reports for use by Council, for identifying budget expense over-runs or revenue

shortfalls in a timely manner, and for billing purposes where applicable. A complete and up to date accounting system is crucial for internal control purposes, yet has not been maintained by the City in recent years.

Billings for revenues due to the City are not prepared in a timely manner, and in some cases are not prepared at all. Once again, we had to calculate the amounts due to the City from SMART for the senior citizens transportation program in the amount of \$25,000. Cost reimbursement requests to Wayne County under the Community Development Block Grant program are consistently submitted one to two years late. The City in the current fiscal year lost funds, totaling over \$24,000. Additional funds, exceeding \$100,000 may be lost in the coming fiscal year if they are not expended and invoiced.

To reiterate our previous recommendations, and provide a checklist of items that need to be addressed, we provide the following recommendations:

1. Accounting records should be maintained in a complete up-to-date manner.
2. Accounting records should be reviewed for completeness and for indications of mis-postings or non-postings.
3. Bank reconciliations should be prepared in a complete and timely manner, with adjustments made when noted.
4. Budgets must be prepared timely and with the input of those charged with budget oversight.
5. Internal accounting reports should be generated in a timely manner for use by City management in meeting their fiduciary duties.
6. Revenue and expense reimbursement billings should be performed in a regular and timely manner.
7. To further organize its operations by department, the City should institute the following:
 - Prepare job descriptions, including duties to be performed on a daily, weekly, and monthly schedule.
 - Establish position qualifications, including educational and experience requirements
 - Conduct regular employee evaluations

ORGANIZATION CHART

The City does not have an organization chart. There is a natural tendency to dismiss the need for an organization chart in a small city, where management deals more or less directly with each employee, and where all personnel know each other, and are generally aware of each other's area of responsibility. However, without an organization chart, there may be confusion about who is really accountable for particular areas and to whom employees are responsible. The result could be that some areas of operations do not receive adequate attention or that duplicated or contradictory actions are taken. A good organization chart can prevent such misunderstandings and also increase administrative efficiency and control in the following ways:

- Indicate whether there is appropriate allocation of operating and supervisory responsibility.
- Indicate whether there is adequate separation of duties.
- Inform management, new employees, and others of the City's management and operating style.
- Provide information for management to monitor and inquire into operations and procedures, assign new duties or responsibilities that may arise, or make reassignments when employee turnover, promotion, operational needs, desire for separation of duties, or other circumstances call for it.

The chart should be updated whenever there is significant employee turnover or change in operations. By developing the chart the City would have a beginning to start organizing its operations.

ECORSE HOUSING COMMISSION

The Ecorse Housing Commission is a component unit of the City. When the City is financially accountable for a legally separate entity, the City should include the financial information of that unit with its own financial statements to form the financial reporting entity. Financial accountability exists if the City appoints a voting majority of the unit's governing body, and if one of the following exists:

- The primary government can impose its will on the other entity, or
- The potential exists for the other entity to (1) provide specific benefits to, or (2) impose specific financial burdens on the City.

The State of Michigan, Department of Treasury has promulgated a "Statement on Michigan Governmental Accounting and Auditing No. 5" for the purpose of defining the governmental reporting entity for Michigan governmental units. This statement stipulates that Housing Commissions are component units.

For the current year and recent past years, the City has been unable to obtain financial information from its Housing Commission for inclusion in the City's financial statements.

We recommend that the City review the situation at the Ecorse Housing Commission and initiate actions necessary to obtain the financial information needed to comply with accounting principles.

GENERAL FUND DEFICIT

The unrestricted net assets of the governmental activities of the City of Ecorse are in a deficit position of \$1,410,994 at June 30, 2003. Expenses for governmental activities exceeded revenues by \$917,602 for the year ended June 30, 2003.

Certain departments continue to incur expenses in excess of their budgets, as indicated in the supplemental schedule of expenditures – budget to actual – included with the financial statements. Departments with variances in excess of 10% were:

<u>Department</u>	<u>Budget</u>	<u>Actual</u>
Judicial	\$ 336,737	\$ 428,139
Clerk	131,580	154,731
Fire Dept.	1,623,881	1,893,242
Public Works	209,000	341,139

BUDGETS AND GENERAL APPROPRIATIONS

The Michigan Uniform Budgeting and Accounting Act (P.A. 621 of 1978) require that local units of government follow certain procedures not only in presenting their budgets but also in monitoring them. One of these requirements is that the City amends its general appropriations as soon as it becomes apparent that a deviation has occurred. At year-end, certain expenditures in the General Fund exceeded appropriations, as discussed previously.

We recommend that greater care be taken in developing the budgets. Actual to budget reports should be prepared in a regular and current manner. Accurate expenditure projections are crucial to developing an attainable budget.

DISTRIBUTION OF TAX COLLECTIONS (MCL 211.43)

Michigan law requires that governmental units with total SEV of more than \$15,000,000 meet the following schedule for distribution of tax collections:

1. Within 10 business days after the 1st and 15th day of each month, account for and deliver tax collections on hand on the 1st and 15th day of each month; and

2. Within 10 business days after the last day of February, account for and deliver at least 90% of the tax collections on hand on the last day of February; and
3. A final adjustment and delivery of the total amount of tax collections on hand shall be made not later than April 1 of each year; or
4. The local unit may enter into an agreement with other tax assessing units to establish an alternative schedule for the delivery of tax collections.

Since the City has not entered into agreements providing for alternative schedules for the payment of tax collections, it must follow the schedule outlined in the preceding items 1 to 3. Failure to follow this schedule constitutes delinquent distribution.

We recommend that the City establish procedures to comply with Michigan law regarding the distribution of its tax collections. The preceding schedule should be adhered to in distributing tax collections received on behalf of other taxing jurisdictions.

PAYMENT OF HEALTH INSURANCE PREMIUMS

Currently, the payment of employee health insurance premiums is the responsibility of the treasurer's office. During this and previous audits, we noted instances where insurance premium charges were being paid for individuals who had left City employment, but who had not been removed from insurance coverage.

In addition, certain departed employees elected to continue their insurance coverage under COBRA provisions. However, records detailing the repayment of costs incurred by these employees are not effectively maintained. Further, records that indicate the amounts due from those employees as well as termination dates of COBRA eligibility are not effectively maintained.

We recommend that the responsibility for health insurance premium payment be assigned to the payroll section of the controller's office. This will allow for easier verification of the employees eligible for coverage and adjustment to premium invoices for terminated or departed employees. We also recommend that sufficient records of COBRA qualified ex-employees be maintained, including COBRA repayments. Those former employees, who do not promptly remit their COBRA payments should be dropped as regulations permit.

CONTROLLERS OFFICE

The Controller position performs numerous functions for the City, which is not normally included within controllership duties. Some of those functions are purchasing, labor negotiations, and tax tribunal activities. Due to the amount of time spent on these activities, the financial and accounting function does not receive adequate attention. A great deal of audit time is spent reconciling accounts and recording transactions. These items should be performed by the controllers' office prior to audit commencement. We

previously recommended that the City either reduce the duties of the Controller to financial and accounting functions or hire a qualified accountant to assist in performing those functions. While various accounting assistants were employed during the 2003 fiscal year, the state of the accounting records, showed no indication of improvement over prior years. This is partially due to turn-over in accounting assistant positions. This lack of continuity, compounded by the absence of accounting policies and procedures, results in a lack of consistency in the preparation and maintenance of accounting records.

In addition to the previous recommendations concerning proper accounting record maintenance, bank reconciliation processes, and reporting practices, other recommendations made previously that continue to apply to the current year follow. Each of these items require performance on a regular basis in order to maintain complete and accurate financial information throughout the year:

- Proper computerized management reports are not being maintained for accounts payable and disbursing activities.
- Accounting functions should be organized and put into an accounting manual, which would provide staff duties and responsibilities, along with completion timelines, and examples of properly completed documents.
- Departments frequently do not provide the correct general ledger account numbers on their requisitions, nor do vendor cards reflect the proper account numbers; therefore, transactions may be charged inaccurately.

TREASURER'S OFFICE

The policy and procedures manual for the Treasurer's office, including position descriptions, with delineated job duties and responsibilities is out-dated. We recommended that such a manual be revised and maintained in a current manner. This recommendation still applies. Additional recommendations continue to apply to the current year follow:

- We again noted that funds received are not deposited in a timely manner and are not recorded in the general ledger in a timely manner. We recommended that procedures be established and enforced to deposit monies daily. We further recommended that deposits be recorded in subsidiary journals and the general ledger promptly. Prompt deposits reduce defalcation opportunity and will ensure that all funds are available for investment. Prompt recording of receipts will provide up to date records, reduce the likelihood of duplicate payments being accepted, and assist in reconciliation activities.
- As in prior years, we noted deposits made to wrong bank accounts, which resulted in cash receipts being recorded in incorrect funds. We recommended that communication with the Controller's department take place when needed, to determine the proper accounts to which a deposit should be made.

- Only one individual in the Treasurers' office enters data into the City's accounting systems. We recommend that other office employees be trained to enter data into the systems. This will allow for more timely processing of transactions and also provide for better internal controls since more than one person will have system access, reducing the opportunity for manipulation of the data.

WATER DEPARTMENT OPERATIONS

During previous years audits, we noted that the water department did not have a system of controls in place to ensure the accuracy of transactions processed. A number of commercial meters continue to be estimated instead of being read. Known defective meters are not replaced in a timely manner. Minimum charges for residential and commercial customers continue to be over-looked, and negative usage billings are generated. Water bills are prepared and mailed with insufficient review. We recommended that estimating of bills be performed only in necessary circumstances, and not as a matter of course. We recommended that meters be replaced when found to be not working properly. We recommended that water bills be reviewed prior to mailing and that certain procedures be developed to identify and correct billing errors.

COMPUTER SYSTEM

The following list describes some of the problems, which continue to exist, related to the computerized accounting system:

- No policy exists regarding the creation and distribution of management and other reports. Prior years management comment letters provided numerous examples of these types of items. Again, we recommend that someone review the types of information available from the system. They should then determine the types of reports that should be generated, the frequency in which it should be generated, and the record retention period. External reporting requirements should also be identified and quantified. Required procedures for the generation and frequency of these items should be documented.
- We noted that computer system controls were not always effectively utilized. We noted control features being over ridden, ignored or not utilized. We also noted that some control features were not part of the computer system. We recommended that policies and procedures for the controls over computer systems be established and enforced. We again recommend that procedures be enumerated and contained within a manual for reference and enforcement of policies.

OTHER MATTERS

Union contracts and employment agreements provide for the accrual of days for vacations, sick time, and other purposes. Several departments maintain their own records of paid time off. These records are not in an auditable condition since time sheets or time cards indicating the amount of time accrued and taken for vacation, sick and compensatory time are not maintained. We again recommend that time records be properly maintained, by the payroll section of the controller's office, noting the accrual and usage of compensated absences.